

Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 AGRE-00 COME-00 CIAE-00 INR-07

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3873

AMEMBASSY BUENOS AIRES

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E. O. 11652: N/A

TAGS: EAGR, ETRD, ECON, AID, CI

SUBJECT: WHEAT IMPORTS: HOW MUCH AND FROM WHERE?

REF: BUENOS AIRES 1947

1. SUMMARY: GOC APPEARS SOMEWHAT UNDECIDED AS TO WHEAT IMPORT PLANS. WE KNOW THAT PL-480 PURCHASES WILL BE DELAYED UNTIL AUGUST-SEPTEMBER 1977. REASONS INCLUDE HIGH LEVEL OF STOCKS IN EARLY 1977, DOMESTIC PRODUCTION LARGER THAN EARLIER ESTIMATES AND NON-AVAILABILITY OF STORAGE FACILITIES UNTIL AFTER JULY. MOREOVER, IMPORTS OF WHEAT AND WHEAT FLOUR MADE EVEN CHEAPER THROUGH RECENT PESO REVALUATION PRESAGE LOCAL MARKETING PROBLEMS FOR DOMESTIC WHEAT. WHAT IMPORTANCE WILL BE GIVEN TO RECENT AGREEMENT WITH ARGENTINA TO IMPORT 500,000 TONS IS ALSO UNCERTAIN. EMBASSY BUENOS AIRES COMMENT ON THIS LAST POINT WOULD BE APPRECIATED. END SUMMARY.

2. BY THE END OF 1976, CHILE IMPORTED 200,000 TONS OF WHEAT BEYOND NORMAL REQUIREMENT. STOCKS OF ECZ (GOC MARKETING ORGANIZATION) TOTALLED 353,200 TONS WHILE PRIVATE TRADE HELD 50,000 TONS. CURRENT DOMESTIC WHEAT CROP EXPECTED TO REACH 700-800,000 TONS, 50-100,000 MORE THAN LAST YEAR. IN VIEW OF THESE SURPLUSES, IMPORTS FOR CALENDAR YEAR 1977 ARE ESTIMATED AT 800,000 TONS, DOWN 300,000 TONS FROM 1976. OF THIS, 103,000 TONS WILL BE PL-480 TITLE I, AND THIS WILL BE BOUGHT IN NEAR END OF FY 77, IN AUGUST-SEPTEMBER.

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3. QUESTION ARISES WHAT PROPORTION OF BALANCE TO BE IMPORTED UNDER COMMERCIAL TERMS WILL COME UNDER TERMS OF RECENT ARGENTINE AGREEMENT. THIS PROVIDED FOR IMPORT OF 500,000 TONS. SOURCES HERE CONTINUE TO INDICATE THAT 500,000

IS ONLY A TARGET. MOREOVER, THERE APPEARS TO BE NO INTENTION OF LIMITING IMPORTS TO ARGENTINE SOURCES IN ORDER TO ACHIEVE THIS TARGET. IF, HOWEVER, US WHEAT PRICES ARE CLOSE (SAY WITHIN \$5.00 PER TON) TO THOSE IN ARGENTINA, CHILEAN MILLERS MAY CHOOSE TO IMPORT FROM THE UNITED STATES. ADDITIONALLY, SOUTH AFRICA AND AUSTRALIA MAY BE VERY COMPETITIVE. SHOULD, HOWEVER, THE PRIVATE TRADE ELECT NOT TO PURCHASE THE MAJORITY OF ITS 1977 WHEAT IMPORTS FROM ARGENTINA, OUR SOURCES SUGGEST THAT THE GOC MAY HAVE TO INTERFERE

WITH MARKET FORCES IN ORDER TO COMPEL COMPLIANCE WITH THE AGREEMENT WITH ARGENTINA.

4. IN THIS CONNECTION, THE GOC IS ALREADY INTERFERING WITH MARKET FORCES IN SEVERAL OTHER WAYS. FOR EXAMPLE, BY DECREE LAW 1184 OF JANUARY 3, 1977, THE GOC IMPOSED A SPECIAL TAX TO RESTRICT WHEAT IMPORTS DURING THE HARVEST SEASON. AMOUNTING TO \$53.50 PER TON. THIS TAX WAS IN ADDITION TO 10 PERCENT AD VALOREM TAX WHICH EXISTED PREVIOUSLY. ITS PURPOSE IS TO ALLOW TIME TO USE MOST OF THE DOMESTIC PRODUCTION. ECA IS STUDYING WHETHER OR NOT TO CONTINUE THE TAX AFTER JULY 3.

5. TOTAL OF ABOVE DUTIES (ROUGHLY \$66 PER TON) HAD MADE WHEAT IMPORTS TOO EXPENSIVE WHEN COMPARED WITH DOMESTIC PRODUCTION. HOWEVER, THE MARCH 5 TEN PERCENT REVALUATION OF THE CHILEAN PESO HAS ELIMINATED THE PRICE ADVANTAGE OF DOMESTIC WHEAT. MILLERS NOW FORESEE A SIX DOLLAR PER TON PROFIT IN IMPORTED WHEAT. SINCE ANY SIZEABLE SHIFT TO IMPORTED WHEAT WOULD PRESENT ECA WITH PROBLEMS IN MOVING DOMESTIC WHEAT INTO THE MARKET, THE CENTRAL BANK HAS STOPPED ISSUING IMPORT LICENSES. IT IS THOUGHT THAT LIMITED OFFICIAL USE

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THIS BAN WILL LAST THROUGH MAY.

6. EVEN MORE SERIOUS PROBLEMS ARISE WITH WHEAT FLOUR, ON WHICH THE SPECIAL DUTY MENTIONED ABOVE DOES NOT APPLY. ONE SMALL SHIPMENT OF ARGENTINE FLOUR HAS ARRIVED IN CHILE, CREATING CONCERN AMONG THE MILLERS WHO HAVE HAD TO PAY HIGH PRICES FOR THEIR DOMESTIC WHEAT. THE PRICE OF DOMESTIC FLOUR THEREFORE IS NOT COMPETITIVE WITH THAT IMPORTED FOR ARGENTINA. A SHIFT TO IMPORTED FLOUR WOULD SIMILARLY CREATE MARKETING PROBLEMS FOR DOMESTIC WHEAT.

7. FOR BUENOS AIRES. APPARENTLY IN STATE OF SOME UNCERTAINTY AS AMONG ITS ARGENTINE COMMITMENTS, ITS PROFESSED DEDICATION TO ITS FREE MARKET PRINCIPLES, AND ITS NEED TO PROTECT ITS DOMESTIC PRODUCERS AND MARKET THEIR CROPS, THE GOC IS NOT TIPPING ITS HAND AS TO HOW ITS IMPORT NEEDS WILL BE SATISFIED. WE WOULD APPRECIATE ANY INDICATION BUENOS AIRES MIGHT HAVE OF THE ARGENTINE EXPECTATIONS WITH RESPECT TO ITS NEW CHILEAN MARKET.

8. NOTE. REFTTEL RECEIVED AFTER THIS TEL PREPARED. SANTIAGO
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